

Motor Vehicle Valuations: Explanation for Tax Year 2010

Submitted by Gale Harris, Commissioner of Revenue

When the personal property tax bills are mailed this fall many of you will be questioning the increases in the truck, SUV and CUV values from last year. It is our intent to help answer questions and clarify the reasons for the change in value this year before the bills are received.

We are living in unprecedented times, and in recent memory, the market volatility has not been as severe as in the past two years. Normally, vehicle values tend to depreciate from year to year. Intuitively, in January 2010, we expected the value of any vehicle to be lower than the value of that same vehicle the previous January.

While that is the case for a number of vehicle segments, the segments that include SUVs, light-duty trucks, minivans and the smaller CUVs, are clearly the exception.

All major vehicle valuation services, not just National Automobile Dealers Association (NADA), indicated increased market values for SUVs and light trucks between January 2009 and January 2010

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In these segments nationwide, several key market events, beginning as far back as mid 2008 played a part in the values established in January 2010.

The following is a summary as to why these values are different from expectations.

Key market events affecting certain vehicle values over the past 18 months:

1. Price of gasoline

2. Fall, then rapid rise in consumer demand for SUVs and light trucks

3. “Cash for Clunkers” program

The most significant issue is the cost of gas. In early 2008, vehicle values were trending as the industry normally expected. Then, in May, June, and July of that year, gas prices increased dramatically.

The national average for a gallon of regular peaked in July 2008 at just over \$4.50

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The market response was dramatic.

Consumers sold unprecedented numbers of SUVs and trucks.

By late 2008, the situation was so bad that some dealers were reluctant to take the large vehicles in trade.

At the end of 2008, SUV and truck values were at a low point.

In fact, January 2009 values were significantly lower than if traditional trending had occurred.

If you owned one of these vehicles in 2009, it is likely that the assessed value as of January 1 was in many cases as much as 30 to 40 percent lower than 2008.

In 2009 another major change occurred. The cost of a gallon of regular gas dropped to below \$2.00 in mid January 2009 [\[3\]](#). The huge drop in gas prices led consumers to return to the SUV and light truck market in all-time record numbers.

As gas prices gradually rose throughout 2009 to an average of \$2.85+, consumer demand has remained strong

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Strong demand generally means higher prices.

What about supply? In July and August of 2009, the “Cash for Clunkers” program, designed to

encourage new vehicle sales, was successful in removing nearly 680,000 vehicles from the road with nearly 85% of those vehicles falling into the SUV and light truck segments

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The rules of that program required that those vehicles be destroyed and not returned to the used market.

This further increased demand as the used vehicle supply diminished.

As with many of the economic changes that have occurred in the past two years, no one predicted, nor could have predicted, the rapid fluctuations in the cost of gas, the fall and then significant rise in demand for SUVs and trucks, along with the drop in supply of SUVs and trucks.

Since the assessed value of vehicles is required by law (Code of Virginia (1950), Title 58.1-3515) to be established on Tax Day (January 1) the values of these vehicles represent the market at that moment in time, resulting in an increase in market value from the previous year, in some cases as much as 17%

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The Code of Virginia (1950), Title 58.1-3503(A) (3) requires that a recognized pricing guide be used, and as such almost all localities in Virginia use NADA as the recognized pricing guide for the valuation of vehicles. NADA reports three major values; retail, trade-in and loan. In Madison County, we use the trade-in value, the medium value in the guide.

1. Ott, Doug. NADA Used Car Guide. McLean, VA, May 27, 2010.
2. National Automobile Dealers Association. Guidelines, NADA Used Car Guide Industry Update. McLean, VA: NADA December 2009.

3. National Automobile Dealers Association. Guidelines, NADA Used Car Guide Industry Update. McLean, VA: February 2009.
4. United States Government Accountability Office. Auto Industry: Lessons Learned from Cash for Clunkers Program. Washington, DC: GAO, April, 2010.